

Message Text

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PAGE 01 STATE 049217

44

ORIGIN EA-09

INFO OCT-01 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03 NSAE-00

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TREASURY - MS. FROST (INFORMED)

EA/IMS - MR. INGRAHAM

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R 280414Z FEB 76

FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA

INFO SECDEF/DSAA/ISA/SA (EA&PR)

CINCPAC/ J4

CHUSDLG/JAKARTA

C O N F I D E N T I A L STATE 049217

E.O 11652: GDS

TAGS: MASS, EAID, ID

SUBJECTC T TERMS FOR INDONESIA

REF: CHUSDLG/JAKARTA MESSAGE 120834Z FEBRUARY

1. REFTEL REPORTS GOI MINISTRY DEFENSE (HANKAM) CONCERN

1) THAT IF IT AGREES TO REPAYMENT OVER FIVE YEARS OF 6.5 MILLION DOLS FMS CREDIT FOR TWO SIKORSKY HELICOPTERS, IT WOULD COMMIT ITSELF TO SAME FIVE-YEAR PAYBACK PERIOD FOR REMAINDER OF PROJECTED 23.1 MILLION DOLS FMS CREDIT FOR FY 76; AND 2) THAT FIVE-YEAR PAYBACK PERIOD WOULD BE TOO GREAT A FINANCIAL BURDEN IN VIEW AUSTERITY GOI DEFENSE BUDGET AND RECENT BUDGET CONSTRAINTS ORDERED BY PRESIDENT SUHARTO IN WAKE OF PERTAMINA'S FINANCIAL PROBLEMS.

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PAGE 02 STATE 049217

EACH GOI AGENCY NOW REQUIRED TO ENSURE THAT ITS DEBT OBLI-

GATIONS WILL FALL WITHIN ITS ABILITY TO REPAY. CHUSDLG REQUESTED THAT SECDEF ADVISE HIM CONCERNING FEASIBILITY OF A 7-8 YEAR PAYBACK PERIOD INSTEAD OF A FIVE-YEAR PERIOD.

2. IMPORTANT OBSTACLE TO USG CONSIDERATION OF HANKAM REQUEST FOR CHANGE IN PAYBACK PERIOD IS SECRETIVE GOI HANDLING OF ITS FOREIGN DEBT SERVICE PROJECTIONS. WE DO NOT KNOW AT PRESENT WHETHER IT WILL PROVE POSSIBLE TO

LENGTHEN PAYBACK PERIOD TO 7-8 YEARS, BUT IT IS DIFFICULT FOR US EVEN TO CONSIDER THE QUESTION WITHOUT FIRMER KNOWLEDGE OF GOI'S DEBT SERVICE COMMITMENTS.

3. EMBASSY, IN CONJUNCTION WITH CHUSDLG, IS THEREFORE REQUESTED TO CALL UPON APPROPRIATE HANKAM AND FINANCE MINISTRY OFFICIALS AND OUTLINE PROBLEMS WHICH USG EXPECTS TO HAVE IN CONSIDERING HANKAM REQUEST. GOI OFFICIALS SHOULD BE TOLD QUITE PLAINLY THAT MYTH OF GOI WEALTH AS OPEC MEMBER REMAINS WIDESPREAD IN WASHINGTON AND THAT ONLY WAY TO BEGIN TO COUNTER IT IS WITH FRANK PRESENTATION OF BOP AND DEBT SERVICE PROJECTIONS.

4. QUESTION OF USG ATTITUDE TOWARD SOFTENING OF LOAN TERMS FOR INDONESIA MAY ALSO ARISE SOON IN OTHER AREAS, E.G., PL 480 TITLE I SALES. NOT INCONCEIVABLE, MOREOVER, THAT GOI MIGHT ASK WORLD BANK AND ADB FOR RETURN TO SOFT LOANS, WHICH AGAIN WOULD INVOLVE WASHINGTON INTERAGENCY DECISIONS. EMBASSY REQUESTED REPORT ANY INDICATIONS OF GOI INTENTIONS TO REQUEST SOFTER LOAN TERMS IN OTHER AREAS, AS WELL AS GOI REACTION TO SUGGESTION THAT IT DISCLOSE ITS DEBT SERVICE PROJECTIONS. INGERSOLL

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